# RANGER OIL (CANADA) LIMITED

# ANNUAL REPORT 1968

ANNUAL MEETING

The annual meeting of Shareholders will be held on Tuesday, June 17, 1969 at 2:00 p.m. in the Company's head office, 2nd Floor, 300 - 5th Avenue S.W., Calgary, Alberta. Notice of the meeting and proxy forms are being mailed with this report.

COVER PHOTO

Tank battery and wellhead assembly at Ranger Husky International Utilities Rainbow 4-14 oilwell.

CONTENTS

# RANGER OIL (CANADA) LIMITED

## DIRECTORS

| | |
|---|---|
| J. M. PIERCE, B.Sc., P.Eng. | Calgary, Alberta |
| E. O. PARRY | Calgary, Alberta |
| F. R. MATTHEWS, Q.C. | Calgary, Alberta |
| E. M. BRONFMAN | Montreal, Quebec |
| W. B. MILNER | Vancouver, B.C. |

## OFFICERS

J. M. PIERCE, B.Sc., P.Eng., President
E. O. PARRY, Vice-President
A. G. HALL, B.Comm., P.Eng., Vice-President — Administration
D. G. FLANAGAN, R.I.A., Secretary-Treasurer

## REGISTRAR AND TRANSFER AGENT

**Guaranty Trust Company of Canada**
311 - 8th Avenue S.W., Calgary, Alberta
427 St. James Street West, Montreal, Quebec
624 Howe Street, Vancouver, B.C.
88 University Avenue, Toronto, Ontario

## SOLICITORS

**MacKimmie, Matthews, Wood, Phillips & Smith**
505 - 2nd Street S.W., Calgary, Alberta

**Keith, Ganong & Roberts**
401 Bay Street, Toronto, Ontario

**Lathrop, Lathrop & Uchner**
Cheyenne, Wyoming

**Collins, Hughes, Martin, Pringle & Schell**
1400 Wichita Plaza Building, 145 North Market Street, Wichita 2, Kansas

**Norton, Rose, Botterell & Roche**
Kempson House, Camomile Street, Bishopsgate, London, E.C. 3, England

## AUDITORS

**Riddell, Stead, Graham & Hutchison**
407 - 8th Avenue S.W., Calgary, Alberta

## BANKERS

**The Royal Bank of Canada**
Main Branch, Calgary, Alberta

**The Fourth National Bank and Trust Company, Wichita**
Wichita, Kansas

## PRINCIPAL BUSINESS OFFICE

Second Floor, 300 - 5th Avenue S.W., Calgary 1, Alberta

## REGISTERED OFFICE

25 Adelaide Street West, Toronto, Ontario

## SENIOR PERSONNEL:

| | |
|---|---|
| D. G. Penner, B.Sc., P.Geol. | Chief Geologist |
| K. J. Hesketh, B.Sc., P.Eng. | Chief Engineer |
| L. T. Marshall | Drilling & Production Foreman |

# HIGHLIGHTS IN REVIEW

- **Cash flow increased 112% to $655,000.**
- **Oil production increased 50% to 870 bopd.**
- **Land holdings increased 300% to 3.1 million net acres.**
- **Exploration activities expanded to Alaska North Slope, Canadian Arctic, East and West Coast Offshore, Wollaston Lake, and Australia.**
- **Discovered oil at Zama.**
- **Mitsue unitized and secondary recovery commenced.**
- **Rainbow Development.**

## Financial

| | 1968 | *1967 |
|---|---|---|
| Net income from oil and gas sales after royalty and lifting costs | $ 783,000 | $ 532,000 |
| Operating cash flow | 655,000 | 309,000 |
| Net earnings | 461,000 | 156,000 |
| Working capital (deficiency) | (2,000) | 252,000 |
| Long term debt | Nil | Nil |
| Number of shares outstanding (December 31) | 2,974,002 | 2,964,002 |

## Operations

| | 1968 | *1967 |
|---|---|---|
| Oil production — before royalty | | |
| Annual — barrels | 317,000 | 211,000 |
| Average per day — barrels | 870 | 580 |
| Gas production — before royalty | | |
| Annual — billion cubic feet | 2.200 | 1.700 |
| Average per day — million cubic feet | 5.4 | 4.7 |
| Land holdings — net acres | 3,093,000 | 766,000 |
| Net productive wells | | |
| Oil | 31 | 29 |
| Gas | 12 | 12 |

* All applicable figures adjusted to full cost method of accounting.

# *President's Report to the Shareholders*

For Ranger Oil (Canada) Limited the year 1968 was one of substantial growth in all phases of operations. The two outstanding highlights were the rapid build-up of cash flow and the major expansion of exploration activities, especially the acquisition of a large land spread on the Alaska North Slope.

Operating cash flow for 1968 amounted to $655,000, a gain of 112% compared to $309,111 in 1967. Net earnings were $461,000, a gain of 196% over $156,000 in the previous year. These improved financial results were primarily due to initial production from our Rainbow properties and increase in gas sales and price at Viking Kinsella.

Crude oil production in 1968 was 870 barrels per day, an increase of 50% over the 580 barrels per day in 1967. At year end production was averaging 1,000 barrels per day. We anticipate further production increases from our Rainbow properties as well as Mitsue which was unitized and began receiving benefits of a secondary recovery scheme toward the end of the year. Natural gas production in 1968 averaged 5.4 MMcf per day, an increase of 13% over the 4.7 MMcf per day in 1967. Further increases are expected from this source as a result of the new contract negotiated in 1968.

One of the most important developments during the year was the aggressive expansion into promising exploration areas. The most significant of these was the acquisition of 63,500 acres on the North Slope of Alaska in the vicinity of a major oil discovery at Prudhoe Bay. This discovery was unquestionably the most significant industry event in 1968. A major exploration effort is now underway which is benefiting our lands and we plan to increase our activities in this area.

Prudhoe Bay also drew attention to the potential of the Canadian Arctic where Ranger owns approximately 2,100,000 acres in the Beaufort Sea and the Sverdrup Basin. The east coast of Canada also received considerable interest during 1968 and your Company increased its land holdings by 120,000 acres to a total of 565,000 net acres. In northern Saskatchewan a promising uranium discovery was made at Wollaston Lake and your Company acquired over 900,000 acres in this mineral play. We anticipate substantial activity by the industry in all of these exploration regions.

Another highlight in 1968 was the formation of an Australian subsidiary through which we submitted applications for permits in the vicinity of a discovery well in the Gulf of Papua between Australia and New Guinea. This subsidiary of which Ranger owns 56% will be the operating vehicle for planned exploration activities in Australia and the general Southeast Asia region.

In addition to the above, Ranger discovered oil at Zama in Northern Alberta and drilled an excellent follow-up oil well to its RainS 4-14 oil well in South Rainbow.

The most important industry event in 1968 was the discovery of a major new oil reserve at Prudhoe Bay on the North Slope of Alaska. This region has excellent prospects for additional discoveries in which event it will have a significant affect on North American and world marketing patterns. Enclosed is a copy of a speech prepared for the Montreal Society of Financial Analysts entitled Challenges Facing Canadian Oil Producers which discusses how this new supply would affect Canadian markets. The Federal Government should put east coast refiners on notice that they may have to buy Canadian crude at any time in the future. It is essential that this notice be given immediately before refiners enter into long term contracts for supply of distress foreign crude.

The Board of Directors regrets to announce that it has accepted the retirement of W. B. Milner of Vancouver as Director of the Company. Mr. Milner has been a Director of Ranger since 1963 and was one of the original financial planners of the Company.

Submitted on behalf of the Board of Directors

Jack M. Pierce

J. M. PIERCE
President

April 8, 1969.

# REVIEW OF 1968 OPERATIONS

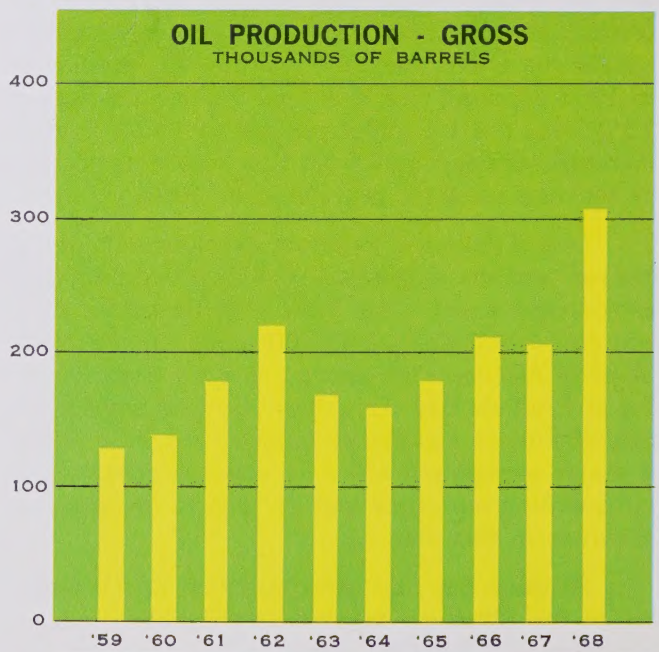
Rainbow South Keg River "F" Pool showing Ranger Husky International Utilities wells

## PRODUCTION

The Company's crude oil production before deducting royalties averaged 870 barrels per day in 1968 a gain of 50% over the 580 barrels per day produced in 1967. The most important factor in this gain was the start of production from your Company's Rainbow properties. The Leinkle Unit in the Rainbow South Keg River "E" Pool was formed May 1, 1968 with Imperial Oil Limited. A large portion of the Company's production is now derived from this source. A further increase is anticipated in 1969 from this interest as a result of increase in allowables and a full twelve months of production, and further increases will occur when a secondary recovery scheme is commenced.

The Mitsue field was unitized May 1, 1968 and a secondary recovery scheme was installed. Enhanced recovery was recognized by the Oil and Gas Conservation Board on September 1, 1968. Production from this unit will show marked increases in 1969.

Natural gas production in 1968 was 2,200,000 Mcf. or 5.4 MMcf per day, an increase of 13% over the 1,700,000 Mcf. or 4.7 MMcf. per day in 1967. We anticipate further increases in sales from this source during the three remaining years of our existing contract, at which time we expect to enter a new contract at increased volumes and higher prices.

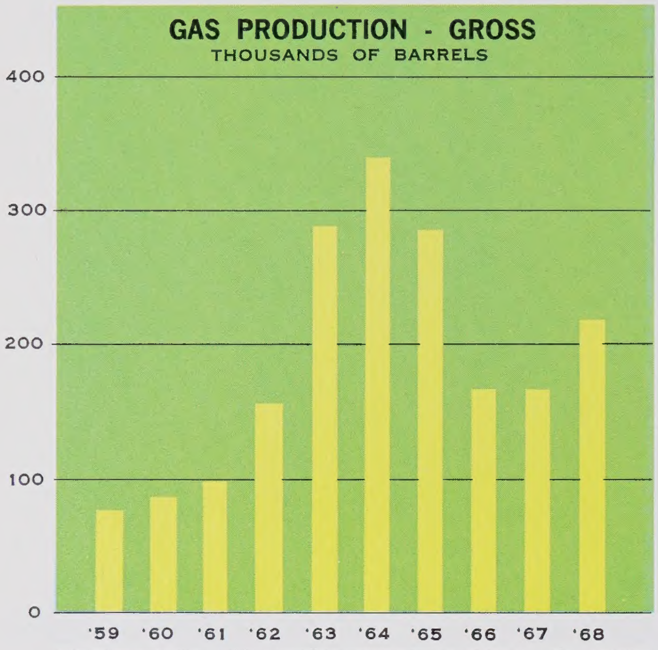



O LOCATION OR DRILLING
GAS FIELD

N. ALBERTA - B.C. - S. NORTHWEST TERRITORIES

MILES 20 0 20 40 60 80 100 MILES

During the year properties in the Rapdan Area of Southwestern Saskatchewan and the Foothills Field in North Dakota were unitized preliminary to installing enhanced recovery projects. These secondary recovery schemes are designed to increase ultimate recoverable reserves and maintain or improve producing rates.




## RESERVES

The Company estimates net proven reserves at the end of 1968 with comparative figures for the previous year as follows:

| | 1968 | 1967 |
|---|---|---|
| Crude oil (barrels) | 18,000,000 | 8,400,000 |
| Natural gas (billions of cubic feet) | 71.7 | 73.7 |

The increase in oil reserves results from inclusion of our Rainbow properties — these were not revealed last year for competitive reasons. Probable reserves at Rainbow from secondary recovery are not included.

Additional gas reserves discovered with oil at Rainbow are also excluded as these are currently beyond economic reach of existing pipeline facilities and have not yet been fully evaluated.

## EXPLORATION

One of the most significant features of our 1968 activities was the acquisition of large and well placed land holdings in attractive exploration plays. These include:

### ALBERTA

#### Rainbow

Ranger and partners drilled a second well Ranger Husky RainS 8-15-108-10 W6M as a follow up to its RainS 4-14 Keg River oil well completed in 1967. The new well indicated a thick pay section with high flow capacity and is now on steady production.

#### Zama

Ranger in association with International Utilities and Bralsaman Petroleums acquired the SE¼ 8-116-6 W6M on January 30, 1968 for a cash bonus of $162,567 at a Crown Reserve Sale. Ranger subsequently farmed out a portion of this interest and retained a 23% working interest after recovering all lease and well costs. A test well drilled on this parcel in June, 1968 discovered oil in the Keg River formation.

Ranger Husky International Utilities Rainbow 8-15 wellhead

### Virgo

Ranger and partners acquired two parcels at the October 29, 1968 Crown Reserve sale in the Virgo area between the Zama and Rainbow Fields. These parcels located in NE 27 and E½ 34-115-7 W6M were acquired for a bonus of $80,135 of which Ranger's participation is 32.5%. Arrangements are now being made to drill two wells on these lands.

### Mitsue

Ranger and partners acquired the W½ 32-71-3 W5M at the October 29, 1968 Crown Reserve sale for a bonus consideration of $111,230. Ranger's share is 16%.

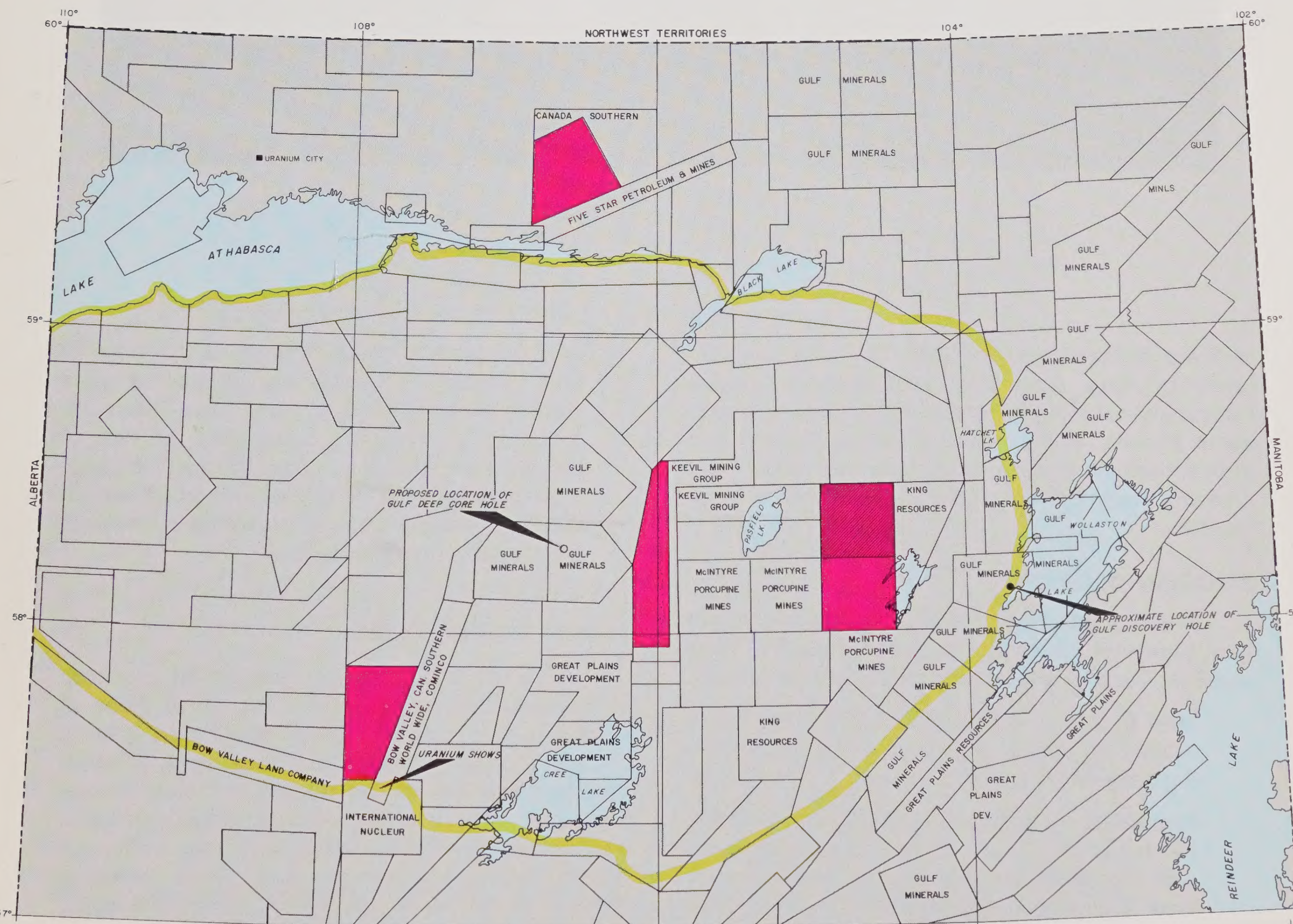
### Viking Kinsella

In order to meet increased deliveries as a result of the new contract covering gas at Viking Kinsella two additional wells were completed and tied in to existing gathering system facilities. Another two wells were completed and tested in anticipation of further sales increases.

This unit now has 11 gas wells of which 6 are dual completions which is equivalent to 17 wells.

## WOLLASTON LAKE, SASKATCHEWAN

Toward the end of 1968 a promising uranium discovery was made in the Wollaston Lake area of




WOLLASTON LAKE URANIUM AREA

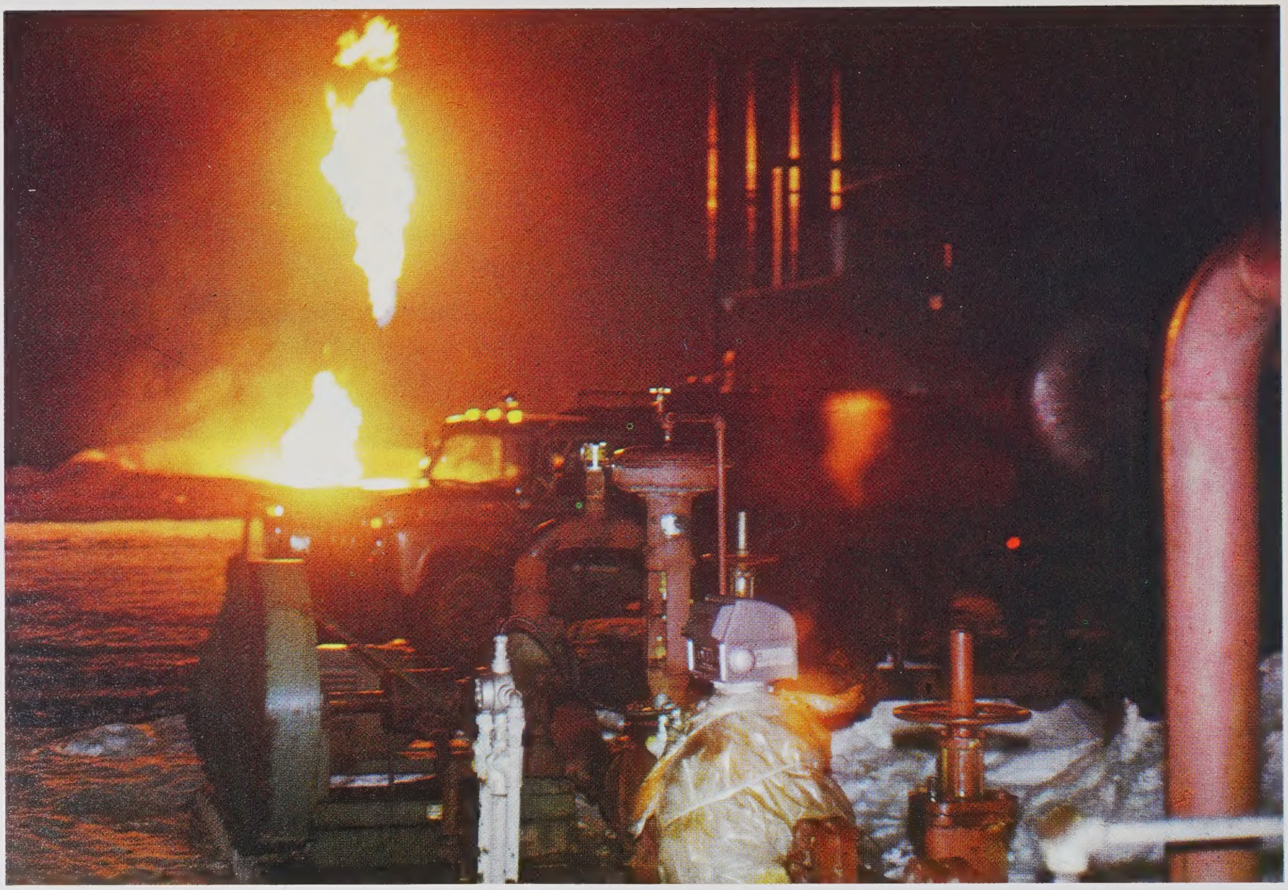
NORTHERN SASKATCHEWAN

MILES 10 5 0 10 20 MILES

RANGER OIL - 75%, 752,100 ACRES

RANGER OIL - 3.75%, 192,000 ACRES

APPROXIMATE EDGE OF ATHABASCA SANDSTONE



Battery at Zama Lake

northern Saskatchewan by Gulf Oil. This was followed by large scale land acquisitions by many companies including Ranger which acquired an interest in permits totalling 944,100 acres. An intensive wide spread exploration program is now in the final planning stage and actual field work will commence shortly.

### CANADIAN OFFSHORE

In addition to these major new areas of interest your Company increased its position on the West and East Coast offshore areas of Canada as follows:

**West Coast** — additional 197,000 acres in the vicinity of Shell's major exploration and drilling program which is continuing.

**East Coast** — additional 120,000 acres off the Newfoundland Coast. The entire east coast area has been the scene of a second major land acquisition program by numerous companies. A considerable amount of preliminary exploration has been completed including a test well on Sable Island offshore Nova Scotia which indicated a thick sedimentary section and recovery of hydrocarbons in the form of gas. Geologic prospects are considered quite favourable and drilling plans have been announced by major oil companies, the first of which is planned for the second half of 1969. The area has the additional important advantages of being close to substantial markets in Eastern North America.

### ALASKA - NORTH SLOPE

As a result of a major discovery of crude oil at Prudhoe Bay in early 1968 the North Slope of Alaska is the most important exploration area in the world today. Ranger anticipated the significance of this strike and moved quickly to obtain a substantial spread of lands in the same geologic basin and in close proximity to the discovery wells. An interest in 63,500 acres was acquired including 75% in 51,000 acres and 22.5% in 12,500 acres. These lands are already benefiting from extensive exploration by other companies and these activities should intensify greatly. Plans are now underway to increase our participation in this region.

## CANADIAN ARCTIC

The discovery of oil at Prudhoe Bay has attracted attention to the Canadian Arctic as well. While the economics of this region are not nearly so attractive as Alaska due to transportation and marketing problems the geological environment is considered favourable and the area is now in the initial stages of a considerable exploration play. With this in mind Ranger has acquired two large offshore blocks of lands as follows:

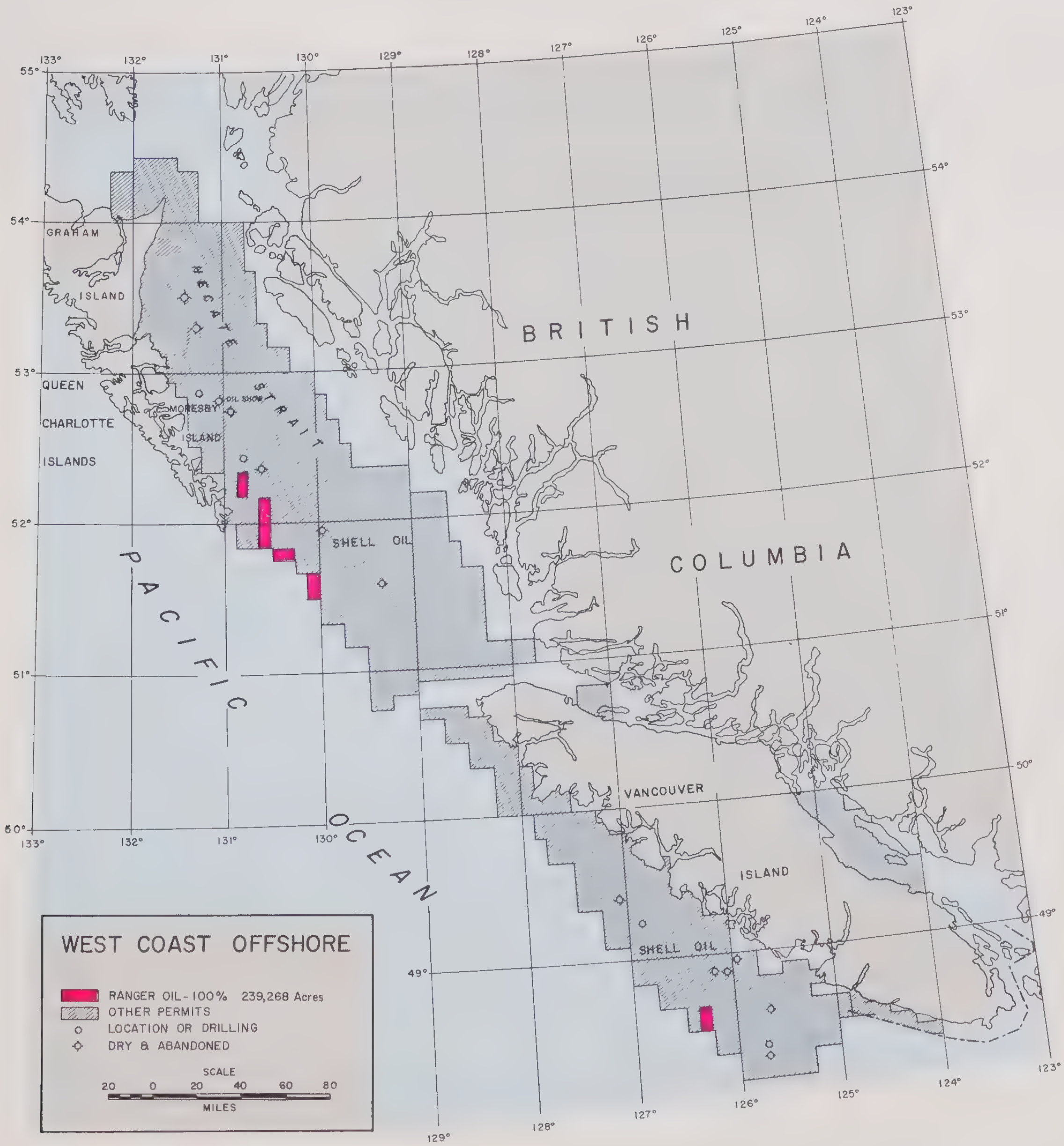
**Beaufort Sea** — 1,500,000 acre block contiguous to the Alaska-Canada boundary. This is one of the closest land blocks on the Canadian side to the Prudhoe Bay strike and is considered to be in a similar geologic environment.

**Sverdrup Basin** — 600,000 acres in several blocks in the northern Arctic Islands. The Sverdrup Basin has a very thick section of young geologic sediments and is generally considered to be the most favourable prospecting area in the Canadian Arctic.

These permits were acquired at nominal cost and can be retained for six years with reasonable exploration commitments.

## AUSTRALIA

Following a discovery well drilled by a group of companies in the Gulf of Papua between Australia and New Guinea your Company was instrumental in having a number of permits made available for competitive tender. Ranger formed an Australian subsidiary to handle this program and has submitted



applications on a number of permits on its own and with an Australian partner, The Associated Group of Companies.

The new subsidiary, Ranger Oil Explorations (Australia) Pty. Limited, is owned 56% by Ranger Oil (Canada) Limited and 44% by the following companies:

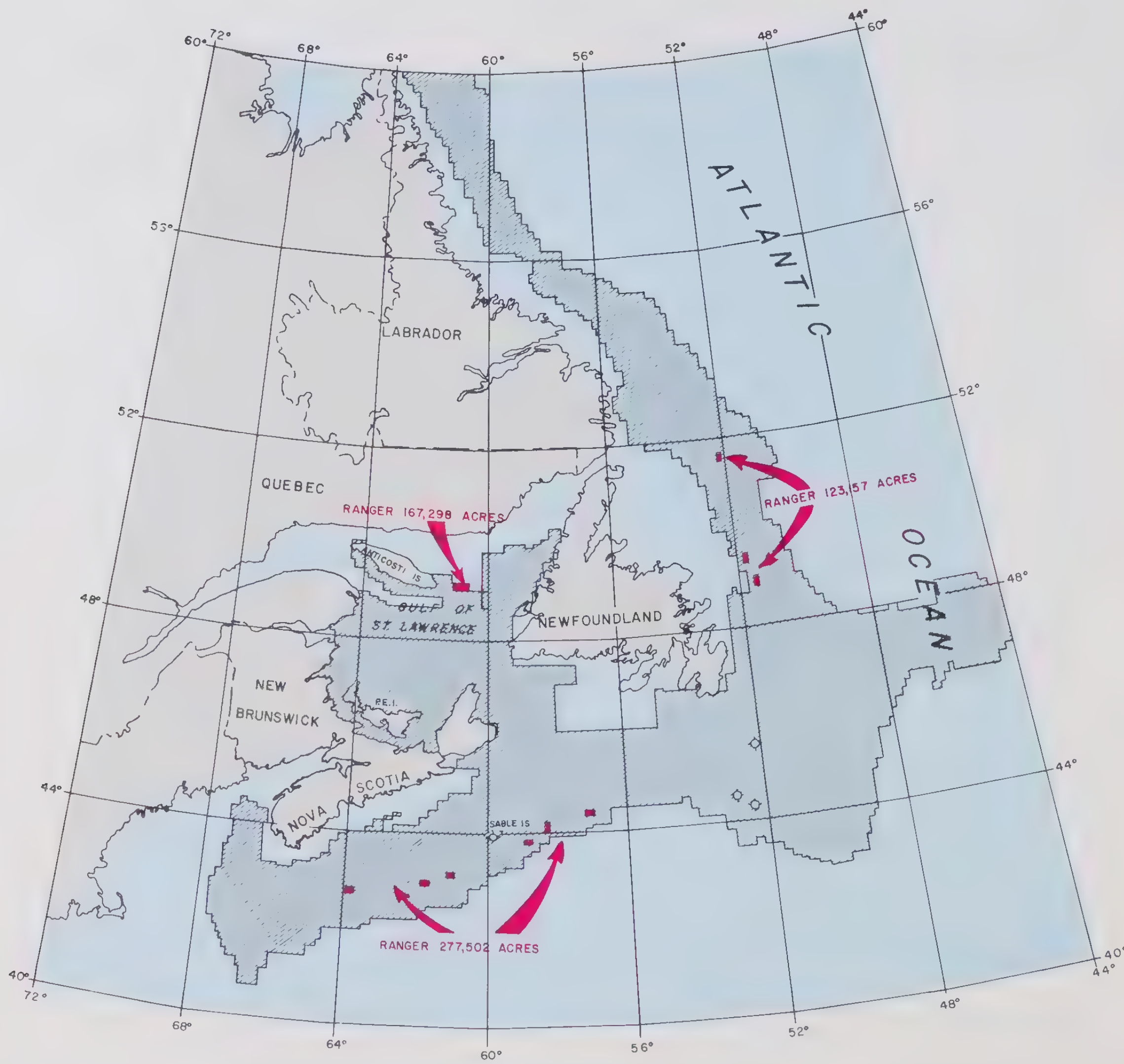
International Utilities, Philadelphia, Penn.
Cazenove & Co., London, England
Davies and Dalziel, Melbourne, Australia
Resource Ventures, Inc., Cheyenne, Wyoming

The Australian subsidiary plans to make a substantial portion of its equity capital available to the Australian public.

In addition to the Papua interest, the Australian company will become actively involved in exploration in the general southeast Asia region.

## OTHER AREAS

Ranger also has an interest in a 180,000 acre block of land in the Fort Simpson area of the Northwest Territories and holds a considerable spread of leases in the Powder River Basin in Wyoming. Both areas are experiencing considerable exploration activity.




EAST COAST OFFSHORE

RANGER OIL–100%

OTHER PERMITS

SCALE: 100 0 100 MILES

Flare Pit at Ranger Husky Rainbow 4-14

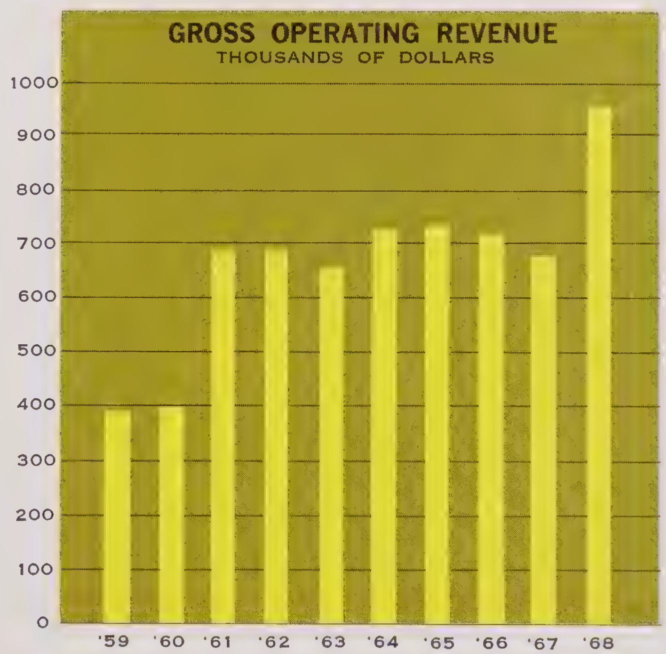
## *Financial*

Gross operating revenue in 1968 increased 41% to $964,000 from $686,000 in 1967. Operating cash flow amounted to $655,000, an increase of 112% over 1967 and net income increased 196% to $461,000.

The principle source of increased revenues was production from the Rainbow Leinkle Unit and "F" Pool, both of which commenced production during the year. Additional income is expected from this source in 1969 as the wells will be on stream for a full year and further increases are anticipated when secondary schemes are commenced.

Another important source of increased revenue was Viking Kinsella where we negotiated a new contract with increased sales at higher prices. Further improvement is anticipated from this source in 1969 and thereafter.

We also anticipate substantial increases in revenues commencing in 1969 from the Mitsue properties which were unitized in 1968.




CANADA
AND ADJOINING U.S.A. STATES
RANGER'S AREAS OF INTEREST
SEE PAGE NUMBER FOR
DETAIL MAPS
miles 100 50 0 100 200 300 miles
ARCTIC OCEAN
BEAUFORT SEA
PACIFIC OCEAN
PRUDHOE BAY
NORTH SLOPE, ALASKA
PAGE 15
PAGE 16
PAGE 5
PAGE 7
PAGE 9
PAGE 17
ALASKA
Fairbanks
Anchorage
USA
CANADA
Inuvik
Norman Wells
YUKON
Sverdrup Islands
Melville Is.
Banks Island
Victoria Island
ARCTIC CIRC
NORTHWEST
TERRITORI
Fort Simpson
Yellowknife
RAINBOW LAKE
BRITISH COLUMBIA
ALBERTA
Edmonton
SASKATCHEWAN
MAN
Victoria
Regina
Winnipe
CANADA
USA
WASHINGTON
MONTANA
NORTH DAKOTA
SOUTH DAKOTA
WYOMING
NEBRASKA

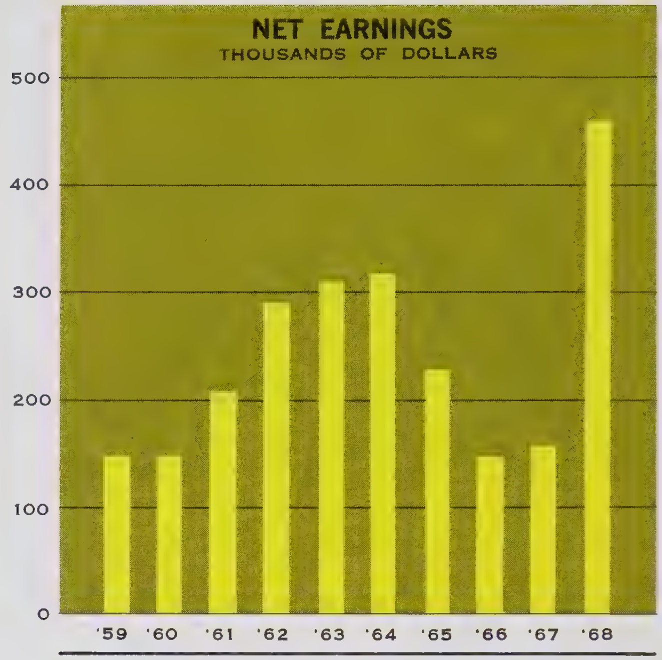

Ellesmere
Heiberg Island
Island
GREENLAND
(Denmark)
BAFFIN BAY
Devon Island
DAVIS STRAIT
BAFFIN ISLAND
ATLANTIC OCEAN
HUDSON BAY
LABRADOR
QUEBEC
NEWFOUNDLAND
BA
ONTARIO
P.E.I.
NEW BRUNSWICK
Fredericton
SABLE IS.
NOVA SCOTIA
Halifax
Quebec
MAINE
Montreal
Ottawa
NNESOTA
V.T.
N.H.
WISCONSIN
Toronto
NEW YORK
MASS.
MICHIGAN
IOWA
PENN.
PAGE 10

Capital expenditures in 1968 amounted to $1,195,000 compared to $1,846,000 in 1967. The 1968 expenditures include $566,000 for land acquisitions, $542,000 for development and exploration and $87,000 for equipment.

As of the end of 1968 the Company had no long term debt and carried a large line of credit with the bank. Since the year end the current bank loan has been reduced by more than $200,000.

In 1968 the Company adopted the full cost method of accounting which has become fairly standard with most mature oil companies. Under this method of accounting all exploration and development costs are capitalized on the books. These costs are subsequently written off as depletion on a unit of production basis based on the remaining recoverable quantities of gas and oil.

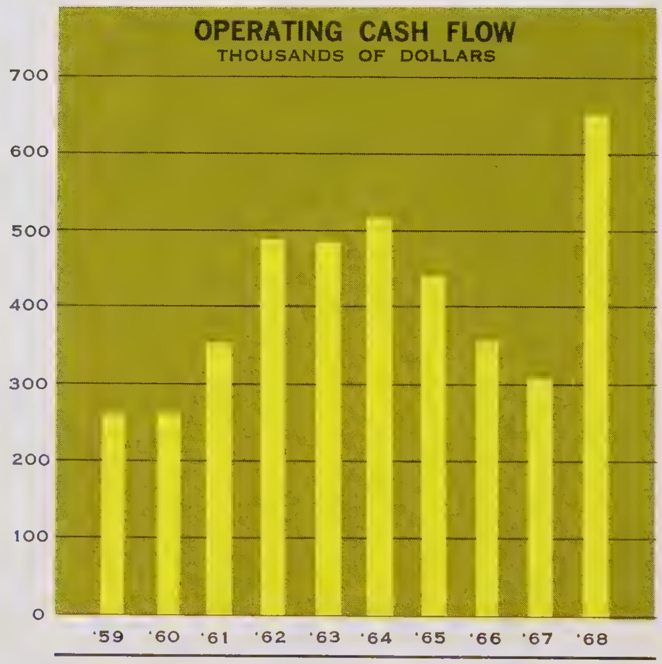
As noted in note 2 to the financial statements we have put through the accounts a retroactive adjustment to reflect this method of accounting. All figures mentioned above and throughout this report have been adjusted to the full cost method of accounting.



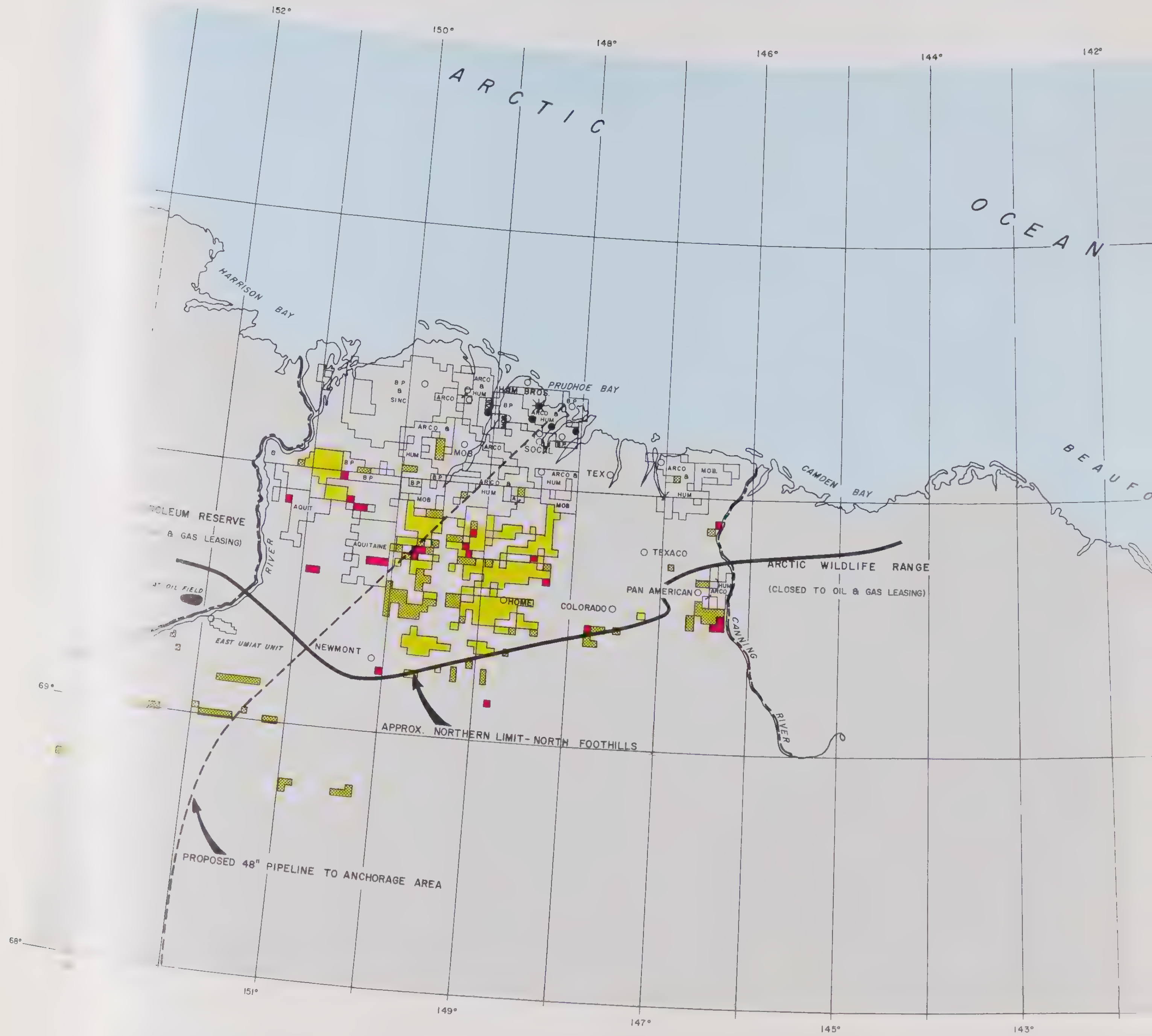

Ranger carried forward into 1968 an unused tax deductible expense in excess of $3,800,000 which more than offset the earnings for the year calculated on the tax basis. This carry-forward is a result of land acquisitions, exploration and development costs which are written off for tax purposes in the same year that they were incurred. Because of this large carry-forward the Company did not incur any tax liabilities in 1968 nor has it made any provision for taxes on the books.

The unused tax deductible expense carried forward into 1969 was in excess of $3,500,000.


Flowing oil well on Imperial Ranger Rainbow South Unit



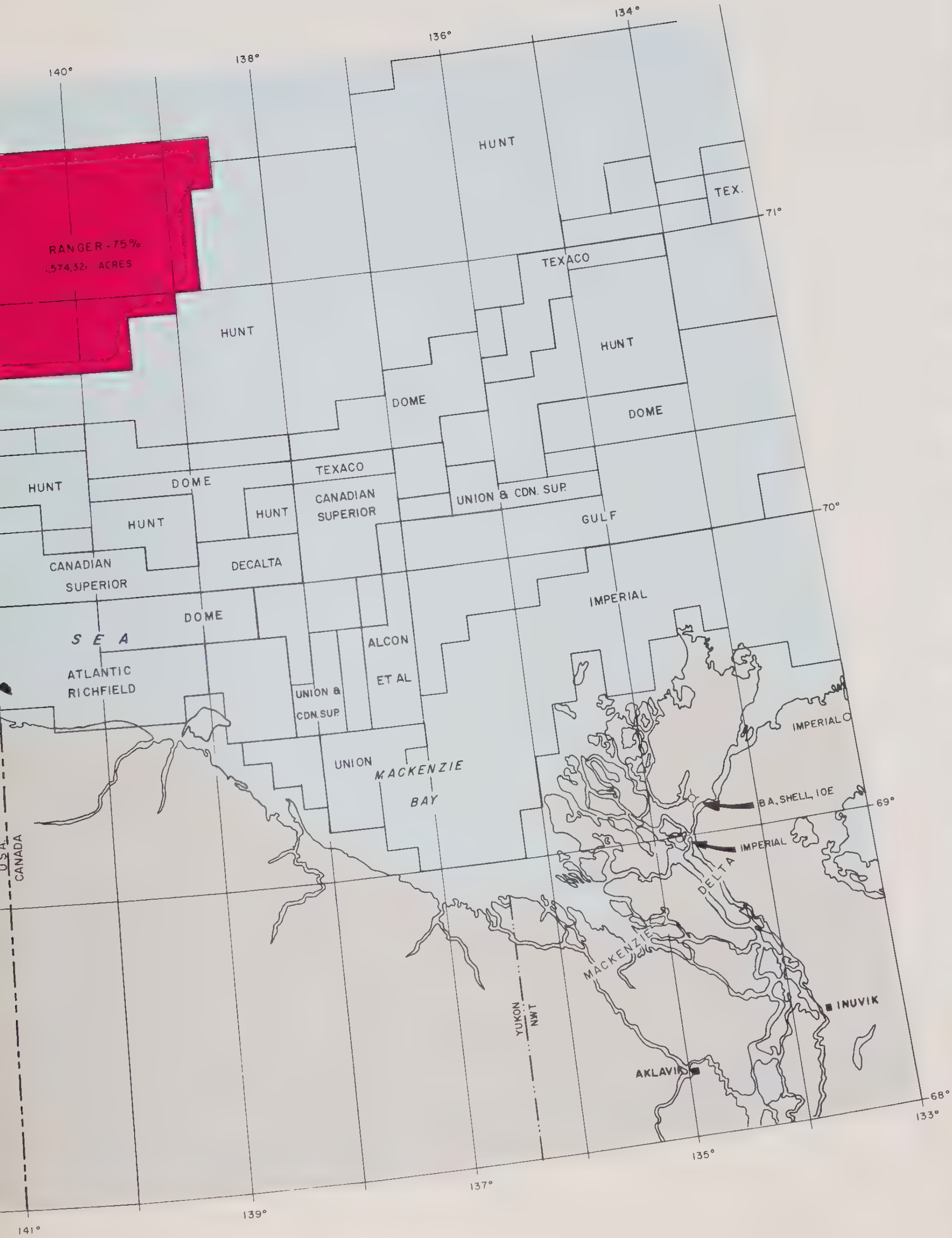

152°
71°
HARRISON BAY
70°
NAVAL PETROLEUM RESERVE
(CLOSED TO OIL & GAS LEASING)
AQUIT
RIVER
UMIAT OIL FIELD
EAST UMIAT UNIT
NEW
COLVILLE
69°
PROPOSED 48" PIPELINE TO
68°
153°
151°
ALAS
RANGE
RANGE
HOME
HOME




## ALASKA, NORTH SLOPE

SCALE
MILES 0 16 32 48 64

- RANGER OIL-75%, 50,793 ACRES ON SHORE
- RANGER OIL-22.5%, 12,492 ACRES ON SHORE
- HOME OIL-100%
- HOME ARCO FARMOUT LANDS



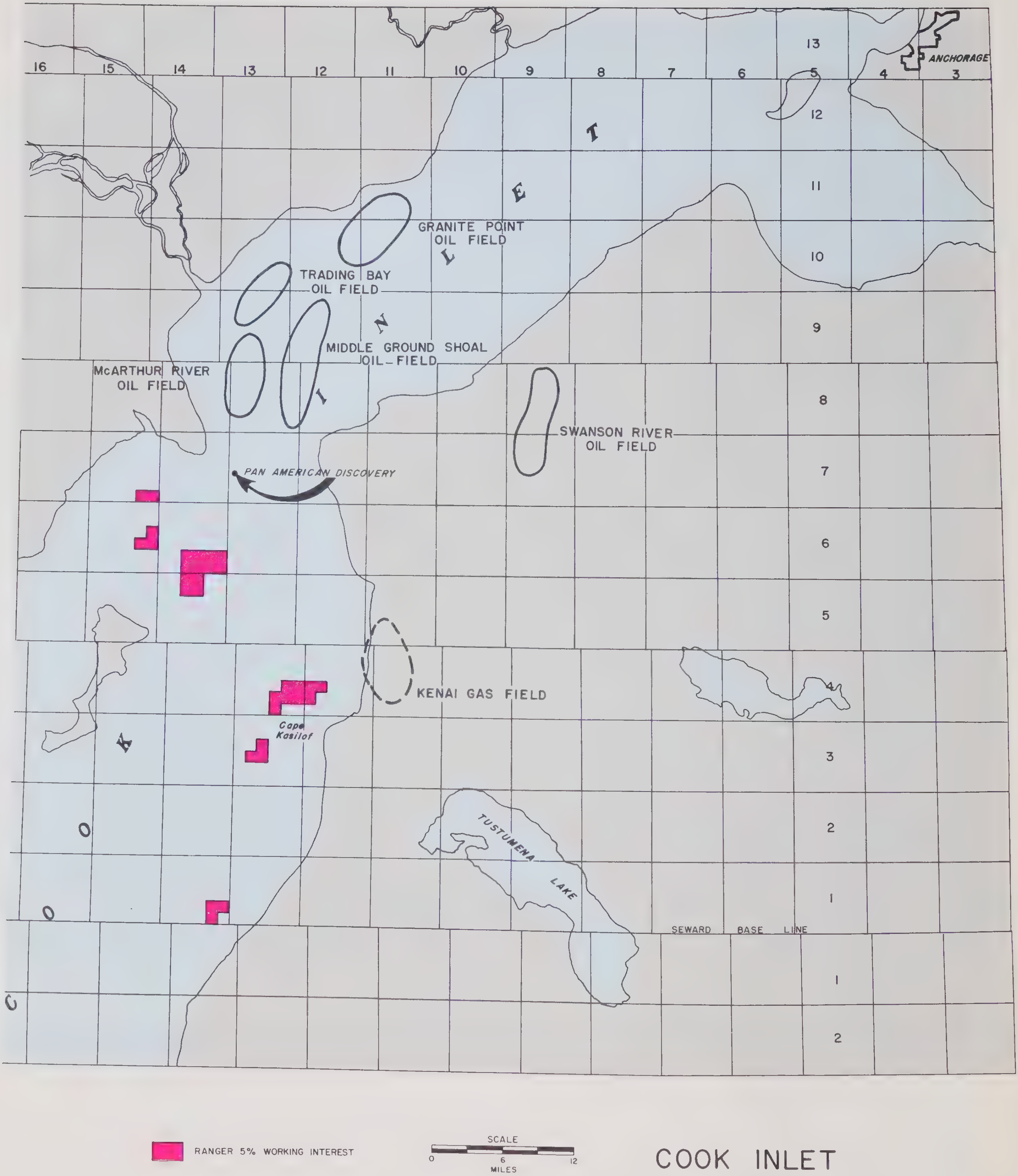

BEAUFORT SEA— MACKENZIE DELTA

○ LOCATION OR DRILLING

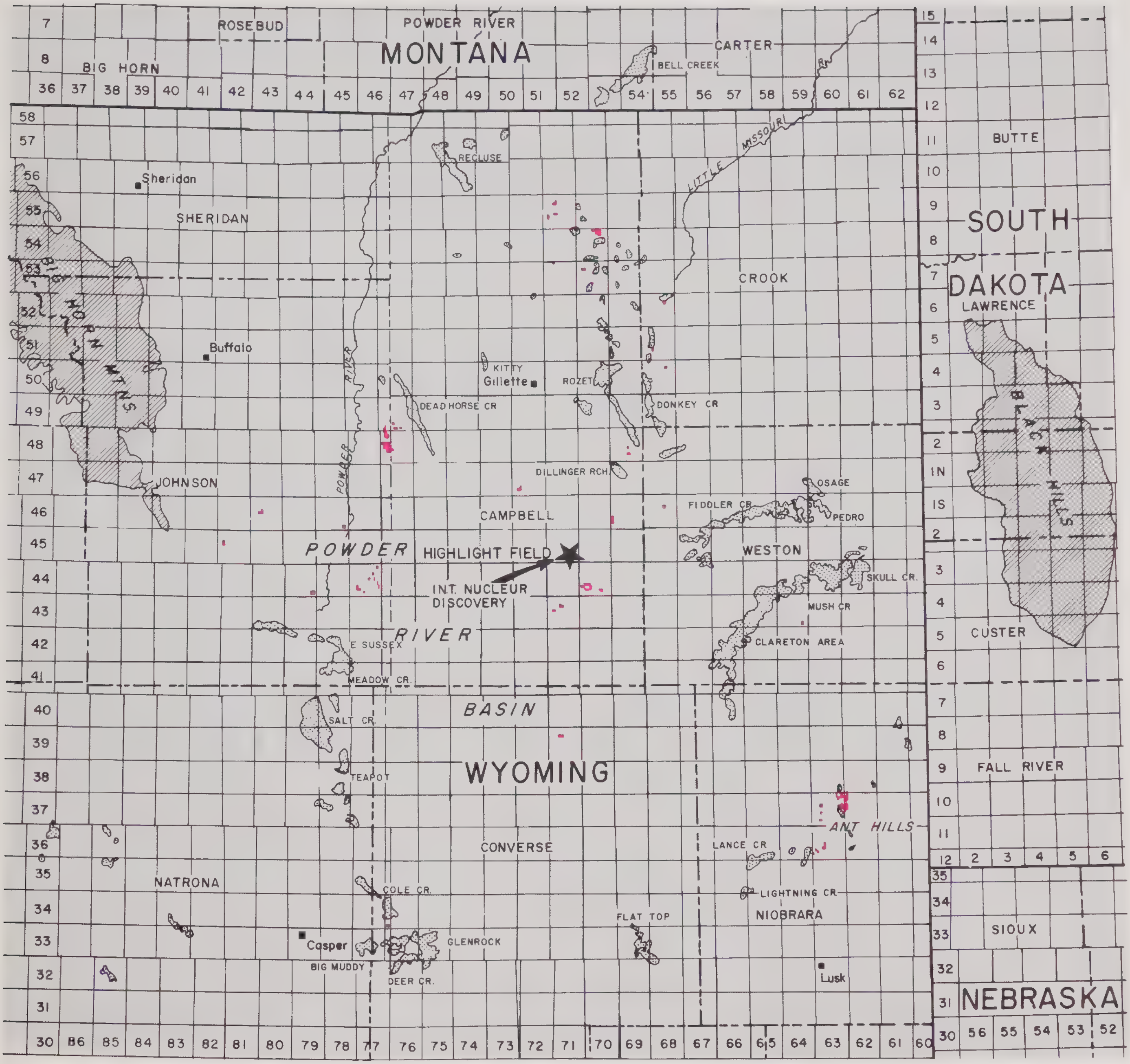
● OIL

✱ OIL & GAS

⌖ DRY & ABANDONED




COOK INLET
ALASKA




# POWDER RIVER BASIN – WYOMING

RANGER OIL COMPANY

8 4 0 8 16
MILES

# Assets

| | 1968 | 1967 (Note 2) |
|---|---|---|
| CURRENT ASSETS | | |
| Cash | $ 134,440 | $ 179,157 |
| Marketable securities, at cost (Quoted market value 1968 — $168,828; 1967 — $10,125) | 78,734 | 14,985 |
| Accounts receivable | 548,410 | 430,580 |
| | 761,584 | 624,722 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Petroleum and natural gas leases and rights, including exploration and development, and equipment thereon (Note 2) | 10,001,552 | 9,172,339 |
| Accumulated depletion and depreciation | 1,893,941 | 1,705,438 |
| | 8,107,611 | 7,466,901 |
| Other equipment, at cost less accumulated depreciation | 17,619 | 20,368 |
| | 8,125,230 | 7,487,269 |
| OTHER ASSETS, at cost | 162,101 | 60,157 |
| | $9,048,915 | $8,172,148 |

The accompanying notes are a

# Consolidated Balance Sheet
## as at December 31, 1968

## Liabilities

| | 1968 | 1967 (Note 2) |
|---|---|---|
| CURRENT LIABILITIES | | |
| Bank loans (Note 3) | $ 453,612 | $ 225,539 |
| Accounts, payable and accrued | 310,366 | 147,049 |
| | 763,978 | 372,588 |

## Shareholders' Equity

| | 1968 | 1967 (Note 2) |
|---|---|---|
| CAPITAL STOCK (Note 4) | | |
| Authorized | | |
| 100,000 preferred shares with a par value of $50 each | | |
| 4,500,000 common shares of no par value | | |
| Issued | | |
| 2,974,002 (1967 — 2,964,002) common shares | 6,928,516 | 6,904,516 |
| RETAINED EARNINGS (Note 2) | 1,356,421 | 895,044 |
| | 8,284,937 | 7,799,560 |

Signed on behalf of the Board:

Jack M. Pierce
Director

E. O. Parry
Director

| | | |
|---|---|---|
| | $9,048,915 | $8,172,148 |

gral part of this financial statement.

# RANGER OIL (CANADA) LIMITED

And Subsidiary Companies

## *Consolidated Statement of Earnings*

FOR THE YEAR ENDED DECEMBER 31, 1968

| | 1968 | 1967 (Note 2) |
|---|---|---|
| REVENUE | | |
| Oil and gas | $ 935,699 | $ 664,242 |
| Investment | 13,122 | 6,941 |
| Other | 14,770 | 15,148 |
| | 963,591 | 686,331 |
| EXPENSES | | |
| Well operating | 153,078 | 131,851 |
| General and administrative | 128,559 | 134,434 |
| Depletion | 147,798 | 100,257 |
| Depreciation | 50,336 | 56,760 |
| Interest | 22,443 | 107,231 |
| | 502,214 | 530,533 |
| NET EARNINGS (Note 1, 2 and 5) | $ 461,377 | $ 155,798 |

## *Consolidated Statement of Deficit*

FOR THE YEAR ENDED DECEMBER 31, 1968

| | 1968 | 1967 |
|---|---|---|
| DEFICIT AT BEGINNING OF YEAR | | |
| as previously reported | $ 481,411 | $ 299,607 |
| Retroactive adjustment in respect of change in accounting policies (Note 2) | 1,376,455 | 1,099,445 |
| RETAINED EARNINGS, as restated | 895,044 | 799,838 |
| Net earnings for the year | 461,377 | 155,798 |
| Share issue expense | — | (60,592) |
| RETAINED EARNINGS AT END OF YEAR | $1,356,421 | $ 895,044 |

The accompanying notes are an integral part of these financial statements.

# RANGER OIL (CANADA) LIMITED
And Subsidiary Companies

## *Consolidated Statement of Source and Application of Funds*
FOR THE YEAR ENDED DECEMBER 31, 1968

| | 1968 | 1967 (Note 2) |
|---|---|---|
| SOURCE OF FUNDS | | |
| Funds provided by operations | | |
| Net earnings | $ 461,377 | $ 155,798 |
| Charges (credits) not involving funds | | |
| Depletion | 147,798 | 100,257 |
| Depreciation | 50,336 | 56,760 |
| Other | (4,532) | (3,704) |
| | 654,979 | 309,111 |
| Proceeds on sale of properties | 363,509 | 40,580 |
| Capital stock issued | 24,000 | 3,093,377 |
| Other | — | 50,137 |
| | 1,042,488 | 3,493,205 |
| APPLICATION OF FUNDS | | |
| Property, plant and equipment (Note 2) | 1,195,072 | 1,845,751 |
| Reduction of long-term debt | — | 1,289,240 |
| Other | 101,944 | 8,830 |
| | 1,297,016 | 3,143,821 |
| INCREASE (DECREASE) IN WORKING CAPITAL | (254,528) | 349,384 |
| Working capital (deficiency) at beginning of year | 252,134 | (97,250) |
| WORKING CAPITAL (DEFICIENCY) AT END OF YEAR | $ (2,394) | $ 252,134 |

The accompanying notes are an integral part of this financial statement.

# RANGER OIL (CANADA) LIMITED

And Subsidiary Companies

## *Notes to Consolidated Financial Statements*

AS AT DECEMBER 31, 1968

### NOTE 1 PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the company include the accounts of all subsidiary companies. All subsidiaries are wholly-owned with the exception of Ranger Oil Exploration (Austrailia) Pty. Limited in which the company has a 56% interest.

The accounts of foreign subsidiaries are converted to Canadian dollars on the following basis:

(a) Current Assets and Current Liabilities

At the rate of exchange in effect as at the balance sheet date.

(b) Fixed Assets

At the average rate of exchange, for the years in which the respective underlying assets were acquired.

(c) Revenue and Expenses

At the average rate of exchange for the year.

### NOTE 2 ACCOUNTING POLICIES

In prior years, exploration expenses and carrying charges of both producing and non-producing properties were charged to income as incurred. Lease acquisition costs were capitalized and were charged to income if the lease was subsequently surrendered. The costs of drilling a productive well were capitalized and the costs of an unproductive well were charged to income when determined to be dry. In 1968, the company retroactively changed to the "full cost method of accounting" so that all costs of exploration for and development of oil and gas reserves are now capitalized. These costs are amortized using the unit of production method based upon estimated recoverable quantities of oil and gas as determined by company engineers.

The retroactive adjustment described above relates to the period from the inception of the companies to December 31, 1967 and results in an increase in the consolidated net fixed assets and a credit to consolidated retained earnings of $1,376,455. Calculated on the previous basis net earnings would have been $283,405 in 1968, compared to a loss of $121,212 reported in 1967.

### NOTE 3 BANK LOANS

Bank loans are secured by the company's interest in certain oil and gas properties and are repayable out of production from those properties.

### NOTE 4 CAPITAL STOCK

(a) Shares Issued for Cash

During the year the company issued 10,000 common shares for a cash consideration of $24,000 on exercise of stock options.

(b) Shares Reserved for Issue Under Options

As of December 31, 1968, employees held options to purchase 90,000 shares of the company's capital stock as follows:

| Date Option Granted | Vesting Date | Number of Shares | Price per Share |
|---|---|---|---|
| March 17, 1967 | March 1, 1968 | 20,000 | $ 2.50 |
| June 28, 1967 | June 28, 1968 | 20,000 | 2.30 |
| November 20, 1967 | February 12, 1969 | 25,000 | 4.00 |
| December 27, 1968 | December 27, 1969 | 25,000 | 12.50 |

Each of these options is exercisable for a period of five years commencing on the vesting date in annual amounts of 5,000 shares. In the event the above options are not exercised in any one year, they may be exercised in the succeeding years.

(c) Subsequent Event

On April 1, 1969 the directors of the company designated 30,000 of the company's $50 par value preferred shares as Series Z 4% cumulative redeemable convertible preferred shares and allotted such shares, at par, to the president of the company in consideration of his 4% promissary note due April 1, 1979. Series Z preferred shares are redeemable at par plus accrued dividends and are convertible into common shares during the period from April 1, 1972 to April 1, 1979, at $15 per common share.

NOTE 5 INCOME TAXES

The companies claim capital cost allowances, drilling, exploration and lease acquisition costs for income tax purposes in excess of the related amounts reflected in their accounts and provide in their accounts only for the taxes payable on their taxable income for the year. Expenditures remain to be carried forward and applied against future taxable income as follows:

| | |
|---|---|
| Drilling, exploration and lease acquisition costs | $3,500,000 |
| Undepreciated capital cost | $ 150,000 |

Commencing January 1, 1968 the companies adopted the policy of providing for deferred taxes at such time as income taxes otherwise payable are deferred as a result of claiming capital cost allowances in excess of depreciation recorded; no such provision has as yet been required. However, management does not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs. While this accounting treatment conforms with general practice in the oil and gas industry, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants under which the income tax provision would be based on the earnings reported in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported earnings, income taxes of $150,000 ($35,000 in 1967) would have been provided and net earnings for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $800,000 at December 31, 1968.

NOTE 6 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration paid during 1968 to directors and senior officers totalled $87,600.

# *AUDITORS' REPORT*

TO THE SHAREHOLDERS

RANGER OIL (CANADA) LIMITED

We have examined the consolidated balance sheet of Ranger Oil (Canada) Limited and subsidiary companies as at December 31, 1968, and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting policies as explained in Note 2.

Calgary, Alberta
April 1, 1969.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants

# TEN YEAR REVIEW

## Financial

| | 1968 | 1967 | 1966 |
|---|---|---|---|
| Gross operating revenue | $ 964,000 | $ 686,000 | $ 735,000 |
| Net income from oil and gas sales after royalty and lifting costs | 783,000 | 532,000 | 493,000 |
| Operating cash flow | 655,000 | 309,000 | 363,000 |
| Net earnings | 461,000 | 156,000 | 154,000 |
| Working capital (deficit) | (2,000) | 252,000 | (97,000) |
| Number of shares issued (December 31) | 2,974,002 | 2,964,002 | 1,979,704 |
| Long term debt | — | — | 1,289,000 |
| Interest expense | 22,000 | 107,000 | 108,000 |

## Operations

| | 1968 | 1967 | 1966 |
|---|---|---|---|
| Oil production — gross | | | |
| Annual — barrels | 317,000 | 211,000 | 216,000 |
| Daily average — barrels | 869 | 578 | 593 |
| Gas production — gross | | | |
| Annual — billion cubic feet | 2.200 | 1.700 | 1.700 |
| Daily average — million cubic feet | 5.369 | 4.748 | 4.683 |

**Company adopted the full cost method of accounting in 1968. All applicable figures for prior years have been adjusted to reflect this method of accounting.**

| 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 |
|---|---|---|---|---|---|---|
| 749,000 | $ 738,000 | $ 677,000 | $ 693,000 | $ 491,000 | $ 401,000 | $ 392,000 |
| 552,000 | 585,000 | 532,000 | 553,000 | 399,000 | 309,000 | 325,000 |
| 439,000 | 521,000 | 488,000 | 488,000 | 360,000 | 274,000 | 273,000 |
| 227,000 | 322,000 | 313,000 | 289,000 | 214,000 | 147,000 | 151,000 |
| (468,000) | 151,000 | 231,000 | 146,000 | 37,000 | (16,000) | 144,000 |
| 1,607,399 | 1,587,399 | 1,587,399 | 1,587,399 | 1,587,399 | 1,582,399 | 1,582,399 |
| 1,410,000 | 355,000 | 40,000 | 163,000 | 114,000 | — | — |
| 72,000 | 4,000 | 2,000 | 15,000 | 9,000 | 6,000 | 13,000 |
| 186,000 | 167,000 | 170,000 | 228,000 | 185,000 | 149,000 | 138,000 |
| 509 | 456 | 467 | 624 | 506 | 407 | 379 |
| 2.900 | 3.400 | 2.900 | 1.600 | 1.000 | .900 | .800 |
| 7.884 | 9.303 | 7.970 | 4.342 | 2.646 | 2.332 | 2.301 |

LITHOGRAPHED IN CANADA

RANGER OIL (CANADA) LTD.

AR37

# PRESS RELEASE

FOR IMMEDIATE RELEASE
Ranger Oil (Canada) Limited
300 Fifth Avenue S. W.,
Calgary 1, Alberta, Canada
June 4, 1968 - Area 403, 263-1500

The following Directors of Ranger Oil (Canada) Limited were re-elected at the Company's annual meeting held the 29th of May, 1968:

J. M. Pierce
E. O. Parry
F. R. Matthews
E. M. Bronfman
W. B. Milner

The President released the following income and production figures for the first five months of 1968 to the shareholders:

| | Five Months Ended May 31 1968 | 1967 | Percentage Increase |
|---|---|---|---|
| Net income from oil and gas sales after royalty and lifting costs | $ 308,500 | $236,075 | 31% |
| Production - before royalty | | | |
| Oil - barrels - five months | 107,900 | 85,941 | 26% |
| daily | 710 | 569 | |
| Gas - M.c.f. - five months | 1,111,000 | 924,335 | 20% |
| - daily | 7,300 | 6,121 | |

The above information includes estimated figures for the month of May, 1968.

Mr. Pierce outlined the Company's increased exploration activities including drilling in Wyoming, Zama, and Alaska.

He also indicated that Ranger is very interested in accelerating its expansion program through acquisitions and mergers and is currently evaluating a number of these proposals.

Continental Public Relations

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NEWS RELEASE

for

Ranger Oil (Canada) Ltd.

Ranger Oil (Canada) Ltd. reported a 145% increase in net earnings for the first half of 1971, amounting to $405,000 or 11¢ per share compared with $165,000 or 6¢ per share for the same period in 1970.

Cash flow was also higher at $677,000 for the first six months, compared with $374,000 in 1970. As of June 30th, 1971 Ranger had approximately $9 million working capital.

During the second quarter, Ranger as operator and 50% partner completed a discovery gas well in the Wainwright area of Alberta. A permit for 8,480 acres of additional land offsetting the well has since been acquired by the partners, and further drilling on the properties is expected to commence in the near future.

Ranger shares are now listed on the American and Toronto Stock Exchanges.

# CHALLENGES FACING CANADIAN OIL PRODUCERS

**Talk Prepared for Montreal Society of Financial Analysts**

By: J. M. Pierce, President
Ranger Oil (Canada) Limited

Gentlemen:

It is just over a year since I addressed a seminar here in Montreal sponsored by Richardson Securities at the University Club. The subject of that talk, you may remember, was The 1968 Revolution in World Oil Supply. A quick summary of that talk was that I postulated that because of several serious problems in foreign exploration we were going to see a very sharp swing back to Western World oil exploration. Now a year later we find the most significant oil discovery of the last decade has occurred at Prudhoe Bay on the North Slope of Alaska which couldn't be more domestic, Alaska now being a State of the U.S.A. There has been discoveries of great significance in other parts of the Western World, especially, offshore Australasia.

You will also remember my mentioning of the lack of security of supply of Middle East crude and we have just seen last week another example with Algeria cancelling the Sinclair leases under the pretext of not being properly notified of the Sinclair-Atlantic Richfield merger. This brings me to one of the main points I want to make to you Montrealers, Security of Supply. There is probably no oil consuming area in the world more vulnerable to being shut off from its prime energy source than Eastern Canada, especially Montreal. In return for your dependence on foreign crude you are certainly not receiving cheap fuel. In fact, on a national basis, it is terribly expensive because when you buy foreign crude there are no down stream benefits whatsoever to the Canadian economy. As I pointed out last year funds invested in oil exploration in Canada and the United States are multiplied many times in benefits to the community. In foreign investment the large concession bonuses and the profit and royalty sharing and many other hidden costs are lost funds to the western countries that have provided the capital to say nothing of the vast technological knowhow.

There is another very great harm being done to Canada by Montreal's dependence on foreign crude. You have heard considerable publicity recently about a possible continental oil policy, especially in reports of the meetings between Prime Minister Trudeau and President Nixon. I want to tell you as Canadians that there is no possibility of a continental oil policy between the United States and Canada as long as the United States is limiting its dependency on overseas crude to a level of 16% of the total consumed, and Canada is importing fully 50% of its requirements. This fact is the main complaint of the U.S. independent oil producers. They are not basically objecting to the importation of Canadian produced crude as such but they are violently objecting to the serious breach in the import quota principle.

Now, Gentlemen, as you can see this whole oil import and production problem is very complex and that is why I am making a real effort in this presentation to explain North American oil marketing to you. In many ways you Montrealers and other Eastern Canadians are the key to the whole national oil policy and possible North American oil policy. As long as you allow yourselves to be dependent 100% on foreign crude there is little possibility of working out a continental oil policy with the United States and this affects the whole Canadian economy including Eastern Canada. Now, to add insult to injury, there are several proposals before the Canadian government to build refineries and expand present facilities both using foreign offshore crude. These offshore

refineries simply just should not be allowed. They are intended as nothing more than the mechanism for dumping cheap foreign crude into Eastern Canada and the Eastern United States. This crude is anything but cheap by the time it gets into the hands of the consumer. This argument also applies to the Occidental Machiasport Main project.

## OUTLOOK FOR WESTERN CANADIAN OIL PRODUCTION

Now I know you are all interested in what we consider to be the outlook for production from Western Canada, especially Alberta, considering the impact of the major discovery in Alaska. In fact, the subject that your Association gave me for this talk was Challenges Facing Canadian Oil Producers. I see three stages ahead in Canadian oil production:

1. **Short Term** — there is presently a very substantial increment market available for Canadian crude in the U.S. Great Lakes area which is known as District 2. This area is mainly Chicago - Detroit - Toledo as far East as Buffalo, New York. There is presently a demand for at least 200,000 barrels per day of additional Canadian crude in this area and the only reason it is not going there is Canada's National Oil Policy. Mr. Pepin had promised the previous Secretary of the Interior, Stuart Udall, that there would be no increase in Canadian imports into the Chicago area until at least 1970. So we now have the anomalous situation of Clark Oil Company suing Lakehead Pipeline, a subsidiary of Interprovincial Pipe Line, because Lakehead will not deliver required Canadian crude to Clark - Lakehead's defence being the deal made between Pepin and Udall. We have Ashland Oil & Refining submitting many briefs and pleadings to try and secure Canadian crude for its Buffalo, New York refinery. It would appear at first look that the main help that we need from Governments is for them to keep their hands off! But, of course, the answer is not so simple because the U.S. Government is head-over heels in oil regulation and the Canadian oil industry must have a single national voice in dealing with them. Canada is absolutely in a position to demand that the U.S. stop artificially interfering with the sales of this much wanted Canadian product into the Great Lakes area and furthermore, demand that the U.S. remove the onerous 10½¢ per barrel tariff on Canadian crude. There is no tariff on foreign crude coming into Canada. This is a highly inequitable situation. In summary for the near term situation, Canadian crude sales will expand rapidly into the central United States based on demand and price differential. Petroleum Press Service has pointed out that Canadian crude is competitive in the Chicago area by as much as 60¢ per barrel over some U.S. crude supplies.

2. The second stage that we must look at is the refinery build-up that has already commenced on the U.S. west coast to handle shipments of Alaska crude that will come via the new Trans-Alaskan Pipeline and tankers down the west coast. A substantial portion of this refinery capacity will be completed before the pipeline and the logical source of supply is Trans Mountain Pipeline from Alberta to Vancouver.

3. Stage three will occur in approximately 1972 or 1973 when the Trans-Alaskan Pipeline and related facilities are completed and substantial crude commences moving down the west coast. There have been some fears expressed that this crude could penetrate eastward to the central United States. Any movement of this crude will, however, be tagged with a price very substantially higher than Canadian crude and I believe that after the mid '70's virtually all

the Canadian production available will find a home in the north-central United States by the simple competitiveness of its price and the large volume demands forecasted. John H. Lichtblau, Executive Director of the Petroleum Industry Research Foundation, speaking at the Annual Petroleum Economics and Management Conference at the Transportation Centre of Northwestern University has postulated that assuming production of about 2.5 million barrels per day from the North Slope in the late 1970's onward, Alaska helped by sharply increased imports from Canada might enable the United States to continue to limit its dependency on overseas oil to the present level of 16% of the total consumed well into the 1980's.

Now, this brings me to the next major point. Canadian crude must start moving into the Montreal refining area. Again, as I postulated in Montreal last year, the logical way for Alberta crude to commence supplying Montreal is by direct flow or trade-out from the Chicago terminal of the new Interprovincial Pipe Line eastward to Montreal. This would give reduced tariffs compared to a direct line from western Canada to Montreal.

**SEPARATISM**

If you think about it there may now be grounds for the Western Canadian oil producers to consider that Eastern Canada has already separated economically from us. You are not buying a barrel of our main natural resource-oil, however, you expect us to buy your manufactured products. Furthermore, with your overwhelming electorial influence on the Federal Government many westerners consider that Eastern Canada is responsible for the extreme weakness in Federal representation vis-a-vis the United States on oil matters. Let us face it, up to this moment Canadian oil producing capacity has been considered by the U.S. as a nice safe reserve only to be purchased in the longer term future when required. The optimistic picture that I painted earlier on our penetration into the north-central United States is based almost entirely on natural economic factors of demand and price competition rather than any effort made by Government agencies. The fundamental point is that the whole process can be speeded up immeasurably to the benefit of all concerned, the Canadian oil producer, the Montreal consumer, the total Canadian economic entity and the United States by an informed and firm stand by the Canadian Government.

March, 1969